



Things you should know about:

Instant Tax Refund Loans

What Is a Refund Anticipation Loan (RAL)?

A Refund Anticipation Loan (RAL), otherwise known as an “instant tax refund loan,” is a loan that you apply for through your tax preparer and it is secured by your expected tax return. When you receive an RAL, your tax preparer lends you the amount of the tax refund that you expect, minus interest and fees. Then, when the government sends your actual refund check, it is direct deposited into the bank that made the loan. Because the loan is paid back when you receive your tax refund, the term of an RAL is short – usually 7 to 14 days.

It may sound like an easy way to get your tax refund a little faster. But make no mistake: an RAL is a LOAN, with all of the costs that come with taking out a loan – and then some. Unlike a traditional loan, the interest rate (the annual percentage rate or APR) for RALs is sky high – in many cases more than 200%. Taking out one of these loans can be a costly trap for consumers who don’t realize that an RAL is not a short cut to getting a refund but simply an outrageously expensive short-term loan. Some lenders will even allow you to borrow more than the expected amount of your refund. But the high interest rate applies for the entire loan, not just the amount of the refund. Consumers who borrow beyond their refund at these rates are at risk of not being able to pay back the loan.

Who Takes the Hit?

According to a recent study by the Consumer Federation of America and the National Consumer Law Center, taxpayers lost more than \$1 billion in loan charges and fees in 2002. The consumers paying the highest price for these RALs are low-income families that cannot afford to pay a significant portion of their tax refund in loan fees and interest. In fact, the same study found that 40% of RAL customers qualify for the Earned Income Tax Credit. In 2002, these customers paid an average of \$248 in costs and fees to receive an RAL on expected tax refunds that averaged \$1,980.

It is a vicious cycle of fees for a consumer who needs an instant refund or RAL. To get an RAL, consumers often pay a loan fee, an electronic filing fee, a document preparation fee and a tax preparation fee. Then when the consumer receives a loan check, he often pays an additional check-cashing fee.

It Is Your Refund – Here’s How to Keep More of It!

You probably do not need an RAL. If you file your tax return electronically, you can get your refund very quickly – in approximately two to three weeks – without getting a loan. There are organizations that will help you. You can find an organization willing to help you prepare and file your taxes for free by calling the Center for Economic Progress at 312-252-0280 or visiting this Web site for resources near you: www.dhs.state.il.us/projects/Initiatives/EITC/eitcTaxCS2002.asp.

For further information, please visit the Web site of
Illinois Attorney General Lisa Madigan at www.ag.state.il.us

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